

## Message Text

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FM SECSTATE WASHDC

TO USMISSION NATO PRIORITY

C O N F I D E N T I A L STATE 147621

E.O. 11652:GDS

TAGS: PFOR ECON NATO

SUBJECT:STUDY OF SECURITY IMPLICATIONS OF THE ECONOMIC SITUATION

REF: NATO 3290

1. FOLLOWING ARE SUGGESTED COMMENTS FOR USE IN JUNE 25 NAC DISCUSSION OF ABOVE TOPIC.

2. YOU SHOULD EXPRESS SATISFACTION WITH MANNER IN WHICH THIS NEW TOPIC HAS BEEN TAKEN UP AND FRUITFULLY DISCUSS IN NATO COUNCILS. WE LOOK FORWARD TO FURTHER DISCUSSION OF THE ISSUES PRESENTED, AS WELL AS OF OTHER DIMENSIONS OF THE SECURITY/ECONOMICS RELATIONSHIP.

3. YOU MAY REPEAT OUR EARLIER COMMENT THAT THE SITUATION HAS CHANGED SINCE THE PAPER WAS FIRST DRAFTED, IN THAT THE CONFIDENTIAL

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FOCUS OF INTEREST AMONG GOVERNMENTS HAS SHIFTED FROM PREOCCUPATION WITH INFLATION TO A BALANCED CONCERN WITH THIS ISSUE AND POLICIES DESIGNED TO ASSURE ADEQUATE DEMAND AND EMPLOYMENT IN THE INDUSTRIALIZED WEST. BEGINNING IN LATE

1974 ALMOST ALL NATO ECONOMIES EXPERIENCED A COINCIDENT DECLINE IN OUTPUT AND AN INCREASE IN UNEMPLOYMENT TO HIGH LEVELS. IN RESPONSE, NATO MEMBERS WITH THE STRONGEST ECONOMIES HAVE TAKEN MONETARY AND FISCAL POLICY ACTIONS OVER THE PAST SIX MONTHS TO STIMULATE THEIR ECONOMIES. THERE ARE NOW INDICATIONS THAT THE GENERAL DOWNTURN IN OUTPUT HAS BEEN STOPPED AND THAT RECOVERY WILL BE UNDERWAY IN THE SECOND HALF OF THIS YEAR. MEASURES TO STIMULATE DEMAND HAVE SO FAR BEEN ACCOMPANIED BY A CONTINUED DECLINE IN THE RATE OF INFLATION, EVEN THOUGH INFLATION STILL REMAINS VERY HIGH BY HISTORIC STANDARDS. CARE IS NEEDED TO ASSURE THAT WHILE THE RECOVERY THIS YEAR IS SUSTAINABLE THROUGH 1976, IT NEVERTHELESS DOES NOT LEAD TO REIGNITION OF INFLATION SOME 12 OR 18 MONTHS FROM NOW.

4. WE WOULD CONTINUE TO STRESS THE CONCLUSION OF THE PAPER THAT THE ALLIANCE PARTNERS SHOULD AVOID ECONOMIC POLICIES AND ACTIONS INCONSISTENT WITH THE CONCEPT OF COLLECTIVE SECURITY.

5. WE WOULD WELCOME FURTHER CONSIDERATION OF THE BROAD ISSUE OF ECONOMIC BALANCE BETWEEN EAST AND WEST. WITH A VIEW TO CONTINUING THIS DIALOGUE, BROADENING ITS SPONSORSHIP, AND INTRODUCING NEW POINTS OF VIEW, YOU MIGHT SUGGEST THAT ANOTHER DELEGATION (PERHAPS THE FRG IN VIEW OF CHANCELLOR SCHMIDT'S INTEREST IN THIS TOPIC) UNDERTAKE TO PRESENT THE INITIAL DRAFT OF A NEW PAPER WITH FORMAT, SUBJECT MATTER, AND APPROACH OF THEIR OWN CHOOSING. THIS COULD ONCE AGAIN BE DISCUSSED INITIALLY IN ECONADS AND PERHAPS DEVELOPED MORE CONSCIOUSLY AS A CANDIDATE FOR NAC TREATMENT SOMETIME IN THE FALL. SUCH A MEETING COULD DISCUSS BOTH THE EXISTING AND PROJECTED STUDY AND ANY POINTS OF INTERRELATIONSHIP. INGERSOLL

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